THE FUTURE OF CANADIAN AIRPORT MANAGEMENT

REPORT OF THE AIRPORTS TASK FORCE

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1.0 Introduction: Canadian Airports Today

In many communities where Canada's approximately 1300 airports are situated, their existence is taken for granted. The effectiveness of these facilities as instruments of business, economics and pleasure has been sufficient to permit this attitude to exist, and to grow. Such effectiveness is notable in a country the size of Canada, where transportation in all its forms is the essential adhesive permitting both the whole country, and its parts, to function.

But opportunities exist for improving local economic development, encouraging entrepreneurship, enhancing financial viability, and for realizing the benefits from commercial initiatives. Problems exist in the current system when considered in this context.

The problems can be broadly summarized as a) large and growing financial deficits which create a burden on the Canadian taxpayer; b) limited responsiveness to local and regional needs because of the centralization of the system; and c) inefficiency of the system due to extensive government involvement.

a) A cash deficit of between $750 million and $800 million will be incurred in fiscal year 1985/86 through the operation of Canada's airports and the aviation system (navigation and regulation). If returns on capital investments are included in the deficit, the figure will be significantly higher. According to the 1985 Report of the Auditor General of Canada: "From 1980 to 1985, taxpayers have borne a heavy burden with respect to air transportation. Cost recovery has dropped from 49 per cent to 44 per cent. System costs increased 51 per cent in the period with only a 35 per cent increase in offsetting revenues." The Report went on to state: "The trend of increasing costs for air transportation is likely to continue unless the government injects more financial discipline into its Air Transportation Program. There is cause for concern; all components of the air transportation system show escalating costs even after the impact of inflation is removed."

b) Our overly centralized system inadequately serves the needs and objectives of provinces, regions and municipalities. This system centralizes decision making and does not allow for direct regional or local representation in the airport organization. It therefore frustrates local initiative and control, subordinating them to federal objectives. It also reduces the effectiveness of links to local communities since airport managers are not key decision makers.

c) Government involvement in, and control of, airport operations (including rates and charges, human resources, standards for facilities planning, operating procedures and levels of service) reduce financial accountability and impede incentive, accountability, responsiveness, and flexibility. Such conditions lead to expenditures and revenue structures based on other than purely commercial or operational reasons, and also constrain the airport's ability to attract and retain commercially oriented staff.

The government wants to remedy these problems. In the May 1985 Budget document, government stated that it would consider a new management structure for the federal airport system -- one that would "provide for a self-sustaining system" and "allow for the independent operation of local airports". A further reference to this issue was made in the June 1985 position paper Freedom to Move, which was released by the Minister of Transport, the Hon. Donald Mazankowski. It stated: "The Department will make every effort, consistent with safety and security requirements, to reduce the administrative burden of its operations on carriers and to ensure that existing facilities are being efficiently used before new capital expenditures are made. Operations activities will be conducted in a more commercial manner and will encourage freer competition among carriers."

2.0 The Task Force on Airports

To examine alternatives to the present management structure of Canada's airports, and to take the first step in a consultative process designed to gather informed opinion on the subject, the Minister established the Task Force on Airports in October of 1985. This group was formed of individuals in industry, the community and government.

The mandate of the Task Force was to advise the Minister on the future role of the federal government in the management, operation and funding of Canadian airports.

This Task Force represented a significant body of informed opinion on the subject of Canada's airports. In addition, the Task Force expanded its knowledge in several ways. Experts reported to this body on issues such as labour relations, international regulations and Canada's responsibilities to ICAO, federal-provincial jurisdictional considerations, legal matters associated with airport transfer, and the status and improvement of airport management within Transport Canada. The plans and experiences of other countries were explored, including the sale of British airports to the private sector, the transfer of government-owned airports in Washington, D.C., to a local authority, the management and financing of the Nashville (Tennessee) Airports Authority, and an Australian bill for the creation of an airport Crown corporation.

The Task Force also received presentations on the management models represented by Harbour Commissions and the Canada Ports Corporation, and reviewed letters received from municipalities and local interest groups across the country.

In February and March of 1986, the Task Force reviewed the results of several consulting studies commissioned on its behalf by Transport Canada. These studies examined several themes directly relevant to the Task Force deliberations: the potential for productivity improvement; the suitability of alternative organizational structures; the Canadian and U.S. investment banking perspective; the labour issues related to organizational change; Crown corporation legislation and control; and the operating experience of an illustrative airport Crown corporation.

During their review of these materials and throughout their deliberations, Task Force members were guided not only by their own experience and knowledge and those of others, but also by a desire to fulfil certain basic objectives determined by the Task Force as best serving the needs of Canadians.

2.1 The Task Force Objectives

1. To improve accountability, effectiveness and efficiency in the management of federally owned airports, while maintaining levels of safety and security equivalent to, or better than, those now existing;

2. To work toward attaining commercial viability for as many airports as possible in the system;

3. To develop the potential for using airports to enhance local economic development.

To meet these objectives, the Task Force measured alternatives against several basic principles, determined by the Task Force as essential to ensuring the well-being of Canada and Canadians under any new system, and therefore as necessary elements of any future management scheme for Canada's airports.

2.2 Principles

1. The security and safety of the flying public and of airport property will remain paramount in any managerial approach adopted for Canadian airports.

2. The provision and operation of air navigation services, such as air traffic services and telecommunications, and also of regulatory services, such as certification and enforcement, will continue to be the responsibility of the federal government.

3. The federal government will be responsible for licensing airports. The conditions for receiving the licence will include compliance with all safety and security regulations.

4. The federal government will remain responsible for the negotiation of international bilateral agreements (with input from interested communities) in compliance with its obligations as a contracting state of ICAO.

5. The federal government will review and adjust the Air Transportation Tax (ticket tax) and its distribution before making changes in ownership or control.

6. Transport Canada will maintain a National Airport System Plan.

7. Any transfer should be subject to negotiations on a commercial basis.

8. Under any management scheme, airports shall continue to operate as airports. Any change of use shall be subject to the Minister's approval. Addition commercial activities will be promoted in order to enable the airports to reach a level of commercial viability.

9. Any new owners shall have the freedom to design, construct, operate and maintain site facilities provided that they adhere to the safety and security regulations.

10. Airport managements shall have the freedom of setting fees, rentals and so on. The public (including users) should have the right of appeal if reasonable services or rates are not provided.

11. In the case of an imposed public duty not directly related to the commercial operation of an airport, new owners or operators shall be reimbursed for the related costs. The federal government shall be responsible for instituting a reimbursement policy.

12. A site master plan shall be available for each airport included in the National Airports System Plan under any ownership or control scheme.

13. The transfer of airports shall be so arranged as to ensure that under the new management and control, federal acts (e.g. the Official Languages Act) will continue to be observed and special services for the disabled will be maintained.

14. The federal government shall retain the right to control the airport in the case of national emergency. The federal government shall also retain the right to enter airport land for purposes of providing security and safety inspections, air navigational services and other federal government responsibilities.

3.0 Recommendations of the Airports Task Force

The Task Force made the following recommendations to the Minister:

1. Retain the responsibility for safety and security within Transport Canada and ensure that the present high standards are not jeopardized.

2. Retain the responsibility for air navigation, air regulation and certification of airports within Transport Canada as a separate entity from airport management.

3. Be receptive to the establishment of local authorities by responding favourably to requests from local groups that have the support of their respective provincial and municipal levels of government.

4. Ensure that, where no immediate local interest exists to establish authorities, airports are transferred to Crown corporations. It is envisaged that a national holding company would be established together with regionally based subsidiaries, each with its own board of directors.

5. Facilitate the changes already under way in Transport Canada to streamline the operation of airports and increase their commercial orientation. These changes would be implemented along with the transfer to Crown corporations at an early date.

These recommendations are based on the major findings of the Task Force, which follow in Sections 4 and 5.

3.1 Introduction: Facilitating Change

The Task Force recognized that several steps would have to be taken to ensure that transfer of ownership proceeds smoothly and in a businesslike fashion.

3.2 The Establishment of Airport Authorities

To successfully establish airport authorities, it will be necessary:

1. to proceed with the preparation of federal legislation for approving the creation of authorities. This procedure would ensure that this major policy change is addressed by Parliament; it would also ensure a common national framework;

2. to respond in the near term to local groups prepared to take over the operation of their airports. Current legislation (the Canada Lands Grant Act) would enable Transport Canada to enter into term dispositions (i.e. leases) that would enable these local entities to achieve most of the objectives that could be realized with authorities;

3. to establish a fund whereby groups wishing to establish local authorities may undertake the necessary financial, legal, and other investigative studies. Local groups would be eligible to apply for such funding only after they have demonstrated the seriousness of their interest by expending their own seed money to launch their investigations.

3.3 The Creation of Crown Corporations

The following must be taken into consideration in the establishment of Crown corporations.

1. Except in the few cases where immediate local interest exists for airport authorities, the transfer of all airports to a federally owned Crown corporation with regionally based subsidiaries should be accomplished as soon as possible.

2. Separate boards of directors should exist for both the national holding company and each regional subsidiary.

3. The holding company should serve to co-ordinate the aggregation and presentation of corporate plans, capital budgets, and so forth (developed by regional subsidiaries) for approval by the Treasury Board and Parliament.

4. The regional subsidiaries should have great operational autonomy and respond to local needs and the particular economic development potential of the area.

5. To facilitate the creation of new airport authorities, the Crown corporations should have devolution objectives described in their act of incorporation.

6. To ensure that the Crown corporations are proceeding with their devolution objectives and that their operations are in keeping with current economic circumstances, a procedure should be established for periodic review (perhaps every four or five years), during which the objectives of the holding company and subsidiaries will be reviewed thoroughly.

7. To operate the airports in a businesslike manner, each airport should have its own targets for revenue, expenditures, and profit improvement (or deficit reduction).

4.0 Major Findings

Meeting the Needs of Canada's Airports

Though firmly committed to its recommendation supporting airport authorities as the ultimate form of airport management, the Task Force recognized early in its deliberations that there are, broadly speaking, two distinct categories of airports in Canada, each having different needs, as follows:

1) For airports located in municipalities where sufficient expertise and entrepreneurship are already in place to proceed immediately to transfer to authorities, the introduction of a transitional organization would be an unnecessary complication.

2) For airports that will not soon be financially self-sufficient and that must be brought where possible, to self-sufficiency status, the Crown corporation form of management may be the best method for achieving such status.

4.1. Organizational Alternatives for Final Disposition of Airports

The Task Force examined four possible organizational alternatives for the final disposition of airport management. They were each viewed in the context of the objectives of enhancing local economic development, increasing local involvement in airport management and improving efficiency. The alternatives were:

- **Modified Transport Canada** - A streamlined, decentralized department operation.

- **Crown Corporation(s)** - A lean holding company with autonomous wholly owned subsidiaries and each body with its own board of directors.

- **Airport Authorities** - Autonomous local entities set up to own, operate and finance an airport or several airports in a community.

- **Private Sector** - Airports owned and operated by a private sector enterprise.

4.2 Criteria for Evaluation

The Task Force established major criteria for evaluating each of the four generic models of ownership and control. These criteria have been grouped into categories, closely related to the overall objectives.

Management Practices

- Streamlined decision making process. The decisions should be made rapidly, and the process should involve a minimum of management levels and reduce unnecessary checks and balances.

- Flexibility in labour management practices.

Relationships with Local Economy

- Responsiveness to local circumstances. The airport operation should recognize the particular practices, needs and opportunities of its location.

- Interrelationship with local economic development.

Efficiency of Asset Management

- Commercial objectives for airports (adequate financial returns, agreed risk, and so on).

- Visibility and accountability for loss operations (i.e. providing data that enable scrutiny, particularly of loss-position operations).

- Binding efficiency performance targets; these would ensure clear measurement targets for all managers.

- Management incentive structure directly linking performance with compensation. A suitable incentive structure should provide significant incentive to managers for the attainment of mutually agreed, realistic targets.

Relationship with Federal Government

- Potential for cross-subsidization between profitable and unprofitable airports.

- Adherence to federal government policies and objectives (reduction in the level of government, increased decentralization, bilingualism, and so on).

4.3 Potential for Productivity Improvement

Given its primary objective of improving accountability, effectiveness and efficiency in the management of federally owned airports, the Task Force examined potential improvements in airport efficiency and found them to be very significant. Preliminary analyses suggest potential for enhancing revenues, decreasing operating and overhead costs, and reducing the level of capital expenditures.

4.4 Conclusions: Final Disposition of Airports

The Task Force ranked the alternatives for the final disposition of airports as follows:

- First, Local Authorities;

- Second, Crown Corporations - a national holding company with regionally based subsidiaries (with a high level of autonomy);

- Third, a Modified Transport Canada option.

The Task Force considered that the differences between each of the above were significant. Local Authorities outranked the Crown Corporation approach by a significant margin. Similarly the Crown Corporation option was found to be greatly preferable to a Modified Transport Canada approach.

5.0 Evaluation of Options for Transition to Airport Authorities

5.1 Introduction

The Task Force is firmly committed to its recommendation that airport authorities be created. Authorities are considered the optimum solution for improving airport efficiency and increasing local involvement. The Task Force recognizes, however, that a transitional organization is required, for a variety of reasons, in order to facilitate the implementation of this recommendation.

The transition organization will serve as an intermediary stage between the existing Transport Canada operation and authorities. It will also serve as the ultimate arrangement for those airports not transferred to authorities.

5.2 The Need for a Transition Organization

It is likely that authorities will be created in the near term in only a few cases. It is recognized, moreover, that some airports will never be in a financial position to make the transition to authorities. Also, the creation of an authority requires that the local community first take some initiative, which may not always be forthcoming. In addition to these considerations, there are several other key variables that impede the immediate creation of authorities. These are:

- the need for a dramatic change in direction;
- the need for developing over time the institutional skills (generally underdeveloped at present) required for operating airports as commercial entities;
- the need to improve the efficiency of individual airports in order to increase the potential for community interest;
- the desirability of achieving a realistic transfer value;
- the need to address staffing and organizational structure issues;
- the need to introduce new systems including management incentives;
- the desirability of a gestation period to deal with several complex issues in devolution, such as
  - nature of the disposition
  - tax status of authorities
  - pension liabilities
  - indemnification of new owners
  - insurance costs and availability to the new owners
  - resolution of disposition of ticket tax
  - benefits and costs to each party.

A properly structured transition vehicle could assist in resolving these concerns and facilitate the creation of authorities.

In a few instances, a high level of local interest in the creation of an authority could develop very quickly. The Task Force believes that in such cases transfers should be made directly from Transport Canada to the authority without a transitional vehicle. Care would have to be exercised in negotiating such transfers in order to avoid the creation of unfortunate precedents.

5.3 Evaluation Criteria

The transition organization should be designed to negotiate transfers to authorities and, in the interim, manage airports in a manner that closely conforms to the Airport Authority model. Therefore, the transition organization should have the following characteristics.

- **General strategy development and implementation** - the know-how to develop, communicate, and implement an integrated business strategy to meet commercial objectives and serve community interests.

- **Entrepreneurship** - the ability to recognize and seek out opportunities to enhance profitability and work within the system to initiate action.

- **Marketing and commercial optimization** - the ability to identify the needs of airline businesses and passengers and exploit these needs profitably.

- **Asset management** - the facility for making decisions among types of capital investments on the basis of trade-offs between service and potential returns.

- **Commercial and community balance** - the skill to manage an airport commercially in the public interest.

- **Organizational responsiveness** - the ability to deal quickly and effectively with unforeseen problems and seize opportunities as they arise.

5.4 The Alternatives

The Task Force evaluated the Modified Transport Canada model and the Crown corporation model on their suitability as transition vehicles (see detailed evaluation of 'Transition' options in Appendix II).

5.5 Recommendation

The Task Force recommends that the Crown Corporation model (as described in Appendix II) be the transition organization for the Canadian airport system.

6.0 Fundamental Prerequisites for Success: Crown Corporations

The Task Force strongly urges adherence to several fundamental prerequisites in the establishment of a Crown corporation.

- **Provide a clear mandate**. The corporation's raison d'être, the improvement of airport efficiency for the purpose of divestiture of airports as rapidly as possible to authorities, should be clearly communicated.

- **Clarify the dual role of the airport Crown corporations.** The mandate should clarify the balance that must be struck in any airport Crown corporation between the twin objectives of serving the public and being a viable commercial enterprise. The design of the Crown corporation must allow for the significant variation in the commercial viability of airports across the country.

- **Define explicitly for the Crown corporation the objectives, powers, and functions of both the parent Crown corporation and any subsidiaries, and the makeup and responsibilities of their respective boards.** In the private sector, key roles are understood and reinforced over time through management continuity. Similarly, Crown corporations' roles and responsibilities need to be clearly stated to support their mandate and to set out who has rightful authority to make key decisions.

- **Ensure that senior executives have full authority to carry out their responsibilities.** Organizations need leadership. Effective leaders are characterized by their unreserved commitment to their organizations. They embody the vision of the corporation and must be able to act freely to achieve the organization's objectives. Their authority covers all areas of the business, subject to approval of the Board. They must also nurture and continuously reinforce the organization's culture and value system.

- **Limit political appointments to the senior board and the executive team.** Crown corporations may lack the desired continuity and may risk losing sight of their commercial potential if there is too much political influence at various levels in the organization.

- **Ensure that corporate performance is reviewed periodically.** In order to minimize the corporation's tendency to self-perpetuate, a periodic review of the corporation's performance with respect to established efficiency targets should be required. The review process should also be seen as an opportunity to reestablish corporate goals and objectives so as to meet changing circumstances.

7.0 Work Required Prior to Implementation

The Task Force considered it imperative that a comprehensive information base be developed before implementation of the recommended operational alternatives. This base will entail:

- The development of airport-by-airport revenue forecasts:
  - Forecasts of traffic growth should be made.
  - The implications of regulatory reforms should be examined.
  - The potential for revenue enhancement by changing site fee structures (landing fees, concession revenues, and so on) should be determined.
  - Analysis should be undertaken of the alternative structures and composition of system revenues (the ticket tax, embarkation-debarkation charges) and their interairport distribution.
- The establishment of a basis for effecting commercial transaction to authorities or a Crown corporation.
  - A system of accounts should be developed, airport by airport. This system will include statements and, more importantly, 10-year profitability forecasts. Determination of unfunded pension liability and tax calculations add to the complexity of this work.
  - The valuation and packaging of potential financial arrangements regarding the transfers to municipal authorities should be carried out. The establishment of publicly defendable values for airports requires an assessment of values both under current practices and under improved procedures. The expertise of the investment banking community will be employed and combined with the revenue and accounting information described above.

- International experience should be synthesized and translated into the Canadian context. The particular focus will be on comparative analyses of selected Canadian, U.S., and European airports.

- Appropriate financial and managerial incentives should be developed. The performance of the management structure changes described earlier will be influenced greatly by the accompanying incentives structures. Designing a system of financial incentives for airport managers is a complex but extremely important endeavour. Incentive structures will be fundamental to achieving the principal goal of improved management efficiency.

- The concerns of provincial governments and municipalities should be considered.

- Industrial relations issues should be analysed. The intention is that the implications of implementing managerial change for the various groups be reviewed very extensively.

- Issues relevant to airport lands should be clarified.

Once this work has been completed, the implementation phase can begin.

APPENDIX I

DETAILED EVALUATION OF "FINAL DISPOSITION" OPTIONS

AUTHORITIES

An airport authority would be an independent local body set up to own, operate and finance an airport or several airports in a community. The objective of an authority would be to provide a public service and respond to local needs.

The authority would be governed by a board of directors (or commissioners), usually appointed by the appropriate municipal or provincial governments. This board would have ultimate responsibility for decision making. Qualifications for board membership could include relevant professional qualifications (e.g. accounting, aviation-related experience), and the composition, tenure, appointment procedure and other aspects would be set out by statute.

An authority would be run like a business. It would use business-type accounts and budgets, rely on private-sector accountants, let its own contracts and manage its own personnel systems.

From a management viewpoint, an authority would be a hybrid of the public and private sectors insofar as its purpose would be to provide efficient service to the public on a break-even basis rather than to maximize profit.

The Airport Authority - A Tool for Local Economic Development

The authority would be the ideal instrument for the development and implementation of policy designed to reflect local needs and desires. Because its board of directors would be locally appointed and thus strongly linked with the local community, the authority would promote not only the operations of the airport, but also the needs of local publics and the realization of potential for local and regional economic development.

This aspect of interrelationship provides a most compelling rationale for the institution of airports authorities. Moreover, there would be several related benefits.

The strong local/regional input characteristic of such a decentralized system could also result in speedier decision making and thereby permit greater realization of available opportunities.

In addition, this local emphasis would encourage the setting of local standards and thus free the airports from some of the constraints - real or perceived - that inhibit entrepreneurship and efficiency. The authority could institute the type of management it favoured and set targets and measure results much as a private enterprise is able to do.

The Benefits of Financing and Management Autonomy

A major characteristic of the local authority is that it would not be dependent on government for its financing. Rather, the authority would have to rely on the credibility of its own financial forecasting to obtain funding and must appear before financial institutions on its own behalf to obtain both long term and short term debt financing. This responsibility would motivate authorities to exert financial discipline and strive for maximum efficiency.

Only in the start-up phase would there be any likelihood that a municipality with an interest in establishing the authority would have to guarantee junior debt. Once the authority became established, however, the guarantee provisions would no longer be needed.

Authorities would retain their own earnings and be eligible for government loans and grants. As in the United States, airport authorities could seek long-term guarantees from airlines regarding future use of new facilities. Guarantees would improve financing opportunities for airports and strengthen an authority's loan applications for capital or operating purposes.

The authority would be run like a business insofar as it would use business-type accounts and budgets, rely on private sector accountants, let its own contracts, and control its own personnel systems. But the authority is a hybrid of the public and private sectors insofar as its purpose is to provide efficient service to the public on a break-even basis rather than to maximize profit. Also, unlike private companies, airport authorities would usually be restricted to certain types of business activities set out in the legislation. Normally, they could not merge, diversify or shift purposes without legislative action.

The authorities would also generate and spend revenues from rents and fees collected from the users of the facilities, but would not have the mandate to collect and spend the federal ticket tax managed by the federal government. Although the ultimate management of the ticket tax is yet to be determined, and was not considered explicitly by the Task Force, the tax could continue to be managed by the federal government and used to finance navigation and regulatory activities, such as those relating to safety.

Freedom from government intervention and from the hierarchies of government departments would allow the authority to implement a flexible management structure. Managers of airport authorities would have more administrative power, and job progress could be achieved without prolonged political debates and delays caused by excessive checks and balances.

The federal government would retain responsibility for air navigation, safety and security. This provision would ensure that standards would remain common throughout Canada and consistent with the highest international standards. Safety and security of airports no longer managed by the federal government would be ensured through the administration of airport licences by Transport Canada. These practices are consistent with the federal aviation role in all other developed countries.

This option is unprecedented in Canada. Although federal legislation would not be legally necessary, this option, if adopted, should be subject to parliamentary scrutiny for policy reasons and for the purpose of establishing a model for statutes enacted by other levels of government.

Evaluation

The Airport Authority model has characteristics significantly different from those of the other organizational alternatives the Task Force studied.

Authorities are commercially oriented entities. Their financial accountability would therefore be appreciably greater than that of the other alternatives considered. The linkage between efficiency gains and the beneficiaries would be much more direct for an authority than for a department or Crown corporation. Conversely, loss operations would become quite visible. Authorities would require financial discipline since they would have to raise funds on financial markets often without specific guarantees.

Authorities, therefore, would lend themselves to the establishment of binding efficiency targets and the provision of incentives to managers for meeting specific operational and financial goals. There would also be a very close relationship with airlines, which frequently become closely involved in operations, the guaranteeing of financing, and so on.

Authorities would generally have the airport general manager report directly to the board of directors. Accountability would be very visible and clear. The authority would provide managers with much more administrative power than would be likely in larger hierarchical organizations.

With respect to labour practices, authorities, through dealing with small labour units, would have the ability to respond more promptly to union desires and negotiate more efficient work practices such as cross-utilization of staff.

Creating an authority would be largely dependent on airport users, citizens and local governments, who would have to volunteer their time and guarantee seed money in order that a proposal for transfer of ownership could be prepared as a basis for negotiations with the federal government. As a result, authorities would have a strong relationship with the local economy. They would be very keen to exploit opportunities for entrepreneurial activity tailored to local economic development. Moreover, as noted earlier, authorities would also be extremely aware of and responsive to local circumstances since there would exist a direct economic linkage to the local community and local input to decision making.

Since authorities would not be creatures of the federal government, the linkage to federal policies and objectives would not be as direct as with the Modified Transport Canada or Crown corporation alternatives. Nonetheless, for those airports which receive federal assistance, leverage could be exerted to promote adherence to such policies as bilingualism and employment programs. However, the independence of authorities would preclude direct means of cross-subsidization between profitable and nonprofitable airports, except in those situations where authorities would comprise more than one airport.

The Local Authority concept would require significant federal-provincial consultation, which in the view of the Task Force could slow its implementation. The creation of a local authority would also depend upon the demonstrated financial self-sufficiency of the proposed authority or the willingness of the federal government to provide ongoing subsidies.

It would be desirable for the federal government to establish a fund to provide seed money to local groups wishing to establish an authority. Local groups should be able to demonstrate strong local support before seeking federal funding.

To augment normal site revenues, airports would doubtless seek government funds, whether through distribution of the ticket tax or by an alternative arrangement. Political influence in the operation of airports would be greatly reduced by the altered relationship between the airport and all levels of government. However, the federal government might want to retain a "special share" to ensure co-operation in the event of a national emergency.

The Local Authority concept is the preferred form of ownership because it is most closely in keeping with the overall objectives articulated by the Task Force: efficiency; local participation in airport management; and encouragement of local economic development.

MODIFIED TRANSPORT CANADA

Transport Canada currently operates most significant commercial airports in Canada. Ultimate authority rests with the Minister of Transport. Management is conducted through headquarters, regional and local offices. The usual public service control and management practices are followed, and classification and reward of personnel are rigidly controlled. The workforce is highly unionized, with approximately 85 per cent of the workers affiliated with the Public Service Alliance of Canada.

In late 1985 the Department of Transport introduced structural changes in the Air Administration. These were designed to improve efficiency and responsiveness in the management of airports, air navigation and regulation. The changes divided the former Air Administration into two major groups: navigation services and regulatory responsibilities reporting to the Assistant Deputy Minister, Aviation; and airport operations reporting to the Executive Director, Airports Authority Group.

In addition to the changes in structure and managerial practices introduced in October 1985, the Department of Transport is currently instituting further improvements within the Transport Canada organization to increase the efficiency of airport operations. It is with these changes in mind that this second option is called "Modified Transport Canada". It is the plan to improve the operation and efficiency of the existing organization by:

- reducing the levels of management and shortening lines of communication;
- de-emphasizing the technical functions and emphasizing marketing and commercial activities;
- strengthening systems and skills in technical, financial, operating, commercial and managerial areas;
- providing for relocation of staff and for infusion of new staff and skills from other parts of Transport Canada and the private sector;
- stressing the need for accountability for specific products and end results;
- creating and implementing realistic monetary and non-monetary incentive schemes for both management and operational staff (within the constraints of the Public Service Staff Relations Act);
- adopting aggressive marketing strategies and commercial and retail development plans to increase revenues and, where necessary, to reduce levels of service to effect further financial performance improvements;
- developing airport consultative committees into advisory boards reflecting broadly based community interests;
- reducing overhead costs (in this regard, staff can be reduced gradually to about 4,400 in 1988, with additional cost reductions on a continuing basis);
- applying a more stringent review of capital investment initiatives by ensuring that adequate returns on investment criteria are applied;
- increasing authorities for project approval, financial administration, contracting and leasing at all levels.

The overriding objective of introducing these changes is to have the airports operated on a more "businesslike" basis within Transport Canada. Although this objective is difficult to attain within the bureaucratic framework, improvements are definitely possible. The overall thrust is toward greater delegation of authority both to the Department (from central government agencies) and to the individual airport managers within the Department.

Evaluation

In comparison with other alternatives, the Modified Transport Canada option ranked high on those criteria based on desirability of a relationship with the federal government. In other words, this option would facilitate cross-subsidization between airports and would ensure adherence to government policies and objectives.

However, the Modified Transport Canada model probably ranks lowest of all alternatives with respect to the efficiency of asset management. The Task Force considered that this model would have only modest success in injecting a commercial orientation into airport management. The model is particularly inappropriate for providing managerial incentives and linking them directly to performance. In addition, it would be difficult under this option to separate out the reporting of loss-position operations and to give them adequate visibility in order that corrective action be taken. The establishment of clear efficiency targets in the absence of a market discipline could only be partially achieved.

In respect of the suitability of management practices, the Task Force ranked this alternative as lowest among the four. Even with reduced layers and increased delegation within Transport Canada, decision making would still be subject to the constraints inherent within a government department. Reaction times would be long and the flexibility for change very limited.

The Task Force believed that a Modified Transport Canada approach would have success in relations with the local economy. Local advisory boards are helpful; however the linkage to the local community would be much less effective under this model than under the others.

CROWN CORPORATIONS

The Task Force determined that a Crown corporation (with divisions or subsidiaries) could be established to operate airports either nationally, regionally or individually.

The Task Force studied this option both as an ultimate form of airport management, and as a transitional stage of management for airports to be eventually transferred to authorities. As an operating subsidiary of a parent Crown corporation, the airport could be prepared for local authority status.

The Crown corporation(s) would be subject to the normal conditions described in the recent (Bill C-24) amendments to the Financial Administration Act (FAA).

- **Parliament** would be responsible for authorizing changes in mandate(s). Disposal or dissolution plans, budgets, annual reports, directives, and quarterly and annual Treasury Board President's reports would be tabled for information.

- **The Government** would approve corporate plans, budgets, borrowings, directives and the appointment of directors. It would appoint the chairman, the chief executive officers and the primary auditors.

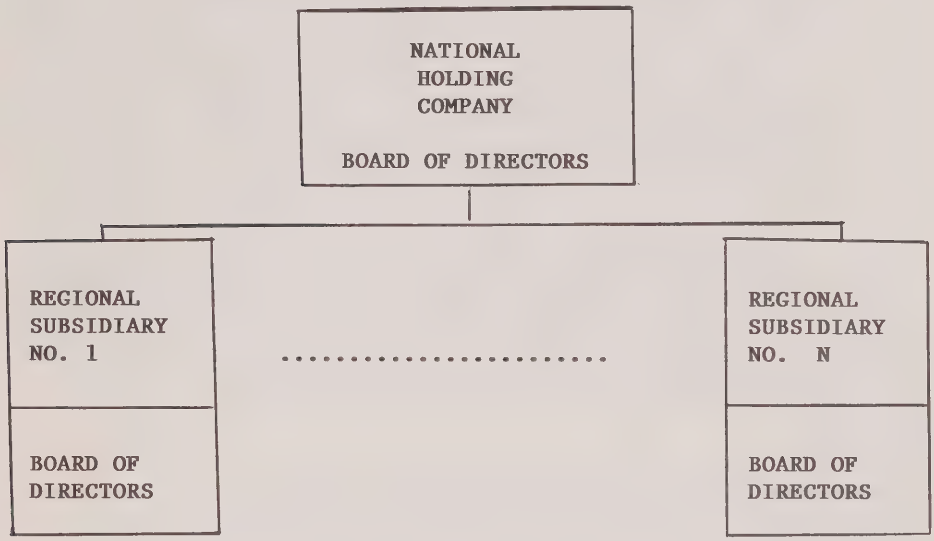
- **The Minister of Transport** would be the primary interface with the Crown corporation and the government. The Minister would appoint directors and recommend corporate plans and capital and operating budgets.

- **The Board(s) of Directors** would have full management responsibilities including the appointment of officers other than officer-directors. The board(s) would be responsible for the corporate plans and budgets.

The Task Force considered that a federally owned holding company with wholly owned regional subsidiaries would be most appropriate. The holding company would have a small staff; its principal responsibilities would be to act as a financial co-ordinator; it would be the primary interface with the Minister on budgets, corporate plans and so on; and it would have a very lean staff. The regional subsidiaries would have considerable autonomy to operate their airports in keeping with local conditions. As illustrated in the following diagram, separate boards of directors would exist for the holding company and each subsidiary company.

Figure I

STRUCTURE OF CROWN CORPORATION OPTION



Additional characteristics of the Crown corporation alternative, as perceived by the Task Force, are as follows.

- The number of regional subsidiaries would be decided after further study. However, between ten and fifteen could be created.

- The geographic coverage of regional subsidiaries would not correspond to provincial boundaries.

- The corporations would have clearly stated mandates.

- The corporations would have included in their objectives the explicit direction to devolve airports to local authorities under appropriate conditions.

- The corporations would be subject to a periodic review process (say every four or five years). This review would examine their structure and objectives and make appropriate modifications.

- The holding company would be responsible initially for borrowings (with government guarantees). It is expected that, after the corporations have established a financial track record, the need for explicit guarantees would disappear. Eventually, some subsidiaries should be capable of borrowing on their own.

- The corporations would have flexibility in establishing the remuneration for all executives except the Chief Executive Officer (CEO), whose salary would be established by the Governor in Council. However, the salary for the CEO would represent a ceiling to which the salaries of all subordinates would be related.

Evaluation

In spite of the legislative controls discussed above, a Crown corporation was found to have much greater freedom than a department in financing and management arrangements.

Crown corporations have greater flexibility than a department in implementing efficiencies in asset management practices. Also, the holding company subsidiary structure is designed to improve relationships with the local economy. The fact that a Crown corporation is a creature of government ensures its continuing ties to federal government policies and objectives.

In terms of asset management, Crown corporations are clearly more commercially oriented than a department. The Crown corporation is accountable for its financial performance and operational goals and can establish management incentives. The corporation's ability to raise capital on financial markets would increase the level of financial discipline over that required of a department. Also, this financial accountability would increase the visibility in loss operations and thereby focus attention on the minimization of these losses and lead to more rational approaches to cross-subsidization.

The management practices of a Crown corporation can be tailored to decrease the time required for commercial transactions. A streamlined decision making process with a limited number of management levels could be instituted more easily in a corporation than in a department. A department must still deal with the fact it is in the mainstream of the government resource allocation process.

By virtue of the nonapplicability of these legislative controls, Crown corporations have a greater flexibility than a department in the key areas of labour relations, financial accountability and public contracting. This flexibility supports the achievement of commercial objectives.

The subsidiaries, mainly because of their narrow geographic areas of responsibility, would be better suited to respond to local circumstances and more in tune with the local economy. An essential benefit of the proposed Crown corporation structure, in comparison with a Departmental approach, is the ability to focus on the needs of geographic regions, independent of national equity issues.

One of the concerns of the federal government is the need for cross-subsidization between profitable and unprofitable airports. The holding company and its subsidiaries would be well suited to institute cross-subsidization since they would be managing airports in various financial circumstances. The divestiture plans can be tailored to ensure that profitable airports are combined with unprofitable airports.

The fact that Crown corporations are owned by the federal government facilitates compliance with federal government policies and objectives (e.g. deficit reduction, access for the disabled).

PRIVATE SECTOR

The Private Sector option represents the highest degree of legal, financial and administrative autonomy from government. Airports would be sold to the highest bidder, and ownership and operation would be carried out by private corporations incorporated under federal or provincial legislation. They would have complete legal, financial and administrative authority and be responsible, through boards of directors, to private shareholders. As in the Airport Authority option, the federal government may want to retain a "special share" that could be exercised in time of national emergency.

Evaluation

The Task Force eliminated the Private Sector option as a potential alternative for the final disposition of airports since it failed to meet certain key criteria. Private sector management was considered unlikely to be sufficiently sensitive to the various publics that use the airports. The prime objectives of improving responsiveness to local circumstances and enhancing the airport's relationship with the local economy were considered more attainable through the other organizational alternatives and could not be sufficiently ensured under private sector management. Moreover, the provision of government subsidies to a private sector operation could be open to public criticism. Additionally, the need for cross-subsidization between profitable and unprofitable airports would be difficult to implement under this alternative.

Finally, compliance with federal government policies and objectives such as cost reduction exercises and bilingualism would be more difficult to enforce under the Private Sector option than under the others.

Therefore, the Task Force did not consider the private sector option a viable alternative.

APPENDIX II

DETAILED EVALUATION OF "TRANSITION" OPTIONS

The Task Force evaluated the Modified Transport Canada model and the Crown corporation model for their suitability as transition vehicles.

Modified Transport Canada Model

Under this option all airports would continue to be managed by Transport Canada, and the Department would undertake to streamline and decentralize its operations.

The Task Force took note of the fact that some of the necessary modifications required only departmental approval while others required significant shifts in central agency control over departmental resources.

For example, the Department, through its own management initiative, could move to:

- reduce levels of management and shorten lines of communication;
- emphasize commercial activities over technical objectives;
- provide for the relocation of staff and infusion of new staff from other areas of Transport Canada;
- increase local input into airport consultative committees;
- improve the review of capital investment decisions.

However, the Department would require a major decision on the part of central agencies in order to:

- develop performance-related incentive pay scales for managers;
- obtain freedom in resource allocation between capital and operating votes.

The Task Force was of the opinion that, under a Transport Canada umbrella, the following would hold true.

- **Decision making would be slow.** In Transport Canada, though it is acknowledged that there are ways to manage government processes more quickly, decision making is relatively slow. In the critical area of staffing, the Department must still work within the job classification criteria of the Financial Administration Act and the hiring and firing regulations of the Public Service Employment Act. The Department does not have direct control over the terms of union agreements, since the Treasury Board negotiates all public service contracts.

- **Airports would continue to be dominated by government funding approaches.** The Department remains subject to overall government spending priorities and faces a long period of financial restraint. Capital programs are still approved by the Treasury Board, according to a set of priorities that explicitly places revenue-generating opportunities last. Moreover, the Department does not have the option of raising funds from private lenders for its general capital needs.

  In addition, the capital budgeting process remains closely tied to government regulations, designed to manage and control massive government programs. From the perspective of a small to medium sized airport, the process is formidable. It may take four to five years of planning and approval before a construction project can begin.

  Finally, without the discipline of market-based funding mechanisms, there would likely be insufficient pressure on managers to make the tough capital-based trade-offs that characterize well run airport entities.

  The contract process would limit commercial opportunities. Unless a major exception were made for airports, the government contracting process would continue to limit severely an airport's ability to exploit commercial opportunities. The requirement to go to public tender, though justified in some contexts, discourages potential private sector partners from dealing with the government. A contractor, after investing in up-front research for a potential project, is required to bid on an equal basis with other contractors. Contracts are generally evaluated on a quantitative basis to avoid any hint of preferential treatment. Moreover, the process of approval often encounters delays, making project co-ordination difficult.

Taken together, current government processes and regulations would almost certainly in the future remain pervasive in airport management. These processes have shaped a well-established set of attitudes that are unlikely to change even through the significant incremental improvements currently being made by Transport Canada.

Crown Corporation Model

For this model, in order to facilitate, and focus on, the notion of divestiture following an interim management closely approximating authorities, the Task Force examined the configuration of a lean holding company with wholly owned subsidiaries having a high degree of autonomy. The subsidiaries and the holding company would each have its own board of directors. The subsidiaries should be developed not along provincial lines, but on a regional basis, and should include a mix of profitable and unprofitable airports.

Specifically, the holding company would be charged with the responsibility for a smooth start-up of the regional corporations, including the appointing of staff and the adjusting and refining of performance targets and incentives. On an ongoing basis, the holding company would then be responsible for ensuring that the regional corporations were meeting their objectives, and that adequate control and accountability to Parliament existed in the spending of public funds. The holding company would enforce appropriate standards of safety and security at all airports. Finally, the holding company would raise funds, when appropriate, on behalf of the regional corporations.

The regional Crown corporation subsidiaries would operate as autonomous companies, responsible for strategy development and day-to-day airport management. The regional organizations should be set up as subsidiary Crown corporations for two reasons. First, this configuration would establish a local board to give the local community more direct involvement in airport management. Second, it would enshrine in legislation the decentralization of airport management in Canada, a provision essential to the eventual transition to local authorities.

In summary, the Crown corporation model possesses the essential attributes of a transitional vehicle as previsouly described.

- It provides an atmosphere for developing a commercial orientation and new management skills.

- It provides the gestation period to deal with the many complex issues in devolution.

- It enables new systems and structures to be introduced.

APPENDIX III

ANCILLARY ISSUES ARISING FROM DIVESTITURE

Significance of Provincial Involvement

Jurisdictional Considerations

It is established law that aeronautics falls under federal jurisdiction regardless of whether an airport is owned by the federal government or by a provincial or municipal authority. Therefore, matters such as airworthiness, air navigation, and standards applicable to the construction and maintenance of runways remain under federal jurisdiction even though an airport may be owned by a provincial authority.

However, divestiture of a federal airport to a provincial body may affect airport operations in many respects relating to ownership, commercial activities and control of traffic on the ground side.

A divestiture of ownership from the federal government will mean that the airports will come under many new aspects of control, regulation and influence by provincial governments, their existing "creature" municipal governments, or some newly created provincial body. These aspects are listed below:

OWNERSHIP DIVESTITURE

ILLUSTRATIVE PROVINCIAL INVOLVEMENT

ASPECT/CONTROL	PROVINCIAL INSTITUTION
- **Acquired Ownership**	
(Negotiation compelled)	- Province - Municipalities (where empowered)
- **Direct Taxation**	
Land, buildings, businesses (square footage), other formulae, franchises, income, etc.	- Province - Municipality - Regional municipality - Metro municipalities - Communities of municipalities - Any "body" empowered by the Province.

- **Land Use**

Managing "excess" airport lands and property or mixed-use lands and property would have a great effect on return.	- Same institutions as for taxation (above) - In addition "super" planning districts and other alternative forms of planning control empowered by the Province.

- **Fees and Rates Control**

	- Province and/or empowered public utilities review agencies.

- **Infrastructure Services**

Roads, water, sewer, communications, electrical power	- Provinces, municipalities

- **Departmental Control**

Currently it is DOT policy to adhere where practicable, to provincial regulations (i.e. adherence is currently not obligatory). With divestiture, the adherence to provincial regulations becomes mandatory.	- Provincial & municipal departments - Transportation - Communications - Municipal Affairs - Health - Fire Commissioner - Labour (including Provincial laws) - Environment - Police

The issues illustrated above (although not intended to be exhaustive) suggest that:

- certain options would require provincial acquiescence;
- in some other cases provincial co-operation (to the extent of legislative enactment) would be needed;
- in all cases, an enunciation of financial arrangements with provision for alteration and adjustment would be necessary.

Financial Considerations

It is anticipated that the assumption of future obligations of a direct, contingent, or guarantee nature by provinces would require close federal-provincial collaboration.

At the same time, the opportunity to control and develop an engine of economic growth such as an airport may justify investments of at least the usual nature for industrial development purposes. These may include typical grants related to new industrial development such as:

- capital grants;
- capital financing assistance;
- direct grants per job created;
- tax relief and forgiveness, etc.

Governmental Action

Provincial governments create and empower all municipalities and other lesser governments. Consequently:

- if a municipality is to receive and operate an airport it must be currently or newly empowered to do so by legislation;
- if a provincial Crown corporation is chosen, it must be created by enactment of the Lieutenant-Governor in Council or the Legislature as the case may be;
- if an authority is chosen (in effect a tailor-made statutory corporation) it must receive legislative assent.

It is anticipated that the federal govenment would wish to establish a policy with respect to the nature of the legal entity to which the airports might be transferred. In establishing such a policy, the effects on existing local groups operating airports should be considered carefully.

Industrial Relations Considerations

There are approximately 4,900 employees working in the Transport Canada Airports Authority Group. This group has the mandate to operate the Canadian Airports System. Ninety-two per cent of these employees are unionized and belong for the most part to the Public Service Alliance of Canada (PSAC). The Professional Institute of the Public Service of Canada (PIPS) represents 7 per cent of them, and the Economists, Sociologists and Statisticians Associations (ESSA) 0.1 percent.

Under the Public Service Staff Relations Act, bargaining units are established on an occupational group basis and the collective bargaining is carried out nationally for each group for the whole of the public service.

In the case of a transfer of ownership and control of an airport to a provincial or municipal authority, to a Crown corporation, or to the private sector, airport employees who are essential to the operation of the airport will remain under the federal labour jurisdiction and will fall under the Canada Labour Code.

Section 145 of the Canada Labour Code provides successor rights to unions in place if ownership is transferred to a federal Crown corporation. In all other cases, i.e. if a private company or a provincial or municipal authority assumes ownership and control of an airport, the Canada Labour Code does not provide successor rights to unions.

In preparation for negotiations with unions and potential new owners, scenarios, or a basic "package" of guarantees will have to be prepared prior to the transfer of ownership and control of airports to a Crown corporation or to an authority.

AIRPORTS TASK FORCE

On October 3rd, 1985, Transport Minister Don Mazankowski established a Task Force with a mandate to review the management structure of Canada's federal airports and make recommendations on possible improvements.

Members of the Airports Task Force were:

Dr. Janet R. Smith
Ottawa, Ontario

- Associate Deputy Minister
  Transport Canada
- Chairperson, Airports Task Force

Mr. D. Brownlow
Dartmouth, Nova Scotia

- Member and Chairman of Halifax Advisory Board
- Former Mayor of Dartmouth

Mr. E. Bunnell
Edmonton, Alberta

- Past President of Edmonton Air Services Authority
- President, Bunnell Aerospace Consulting Services Ltd.

Mr. David Dale
Ottawa, Ontario

- Special Assistant to the Minister
  Transport Canada

Mr. E. David Dover
Calgary, Alberta

- Chairman, Calgary Transportation Authority

Mr. E.W. Galbraith
Vancouver, British Columbia

- CP Air (Retired)

Mr. Claude LaFrance
Ottawa, Ontario

- Assistant Deputy Minister, Aviation
  Transport Canada

Mr. Jean Lamontagne
Blainville, Quebec

- Air Cargo Transportation Consultant
- President, Montreal Air Cargo Association

Mr. F. Lawlor
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- Former Airport Manager, St. John's Airport
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Mr. C.R. MacWilliams
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- President, MacAvia Aviation Consultants

Mr. Vince Malizia
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- Director General, Review
  Transport Canada

Mr. D.C. McAree
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- Executive Director, Airports Authority Group
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Mr. Hugh Morris
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- President, Charlo Airport Commission
- Former Mayor of Charlo

Mr. N. Polowin
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- Chairman, Air Services Committee
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- Vice-President of Marketing
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- Chairman, Aviation Committee, Saskatoon Board of Trade
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